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Attorney for Turner Ranches Water and Sanitation Company

BEFORE THE ARIZONA CORPORATION COMMISSION

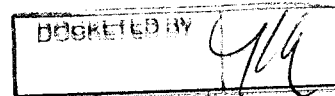
IN THE MATTER OF THE APPLICATION
OF TURNER RANCHES WATER AND
SANITATION COMPANY FOR
AUTHORITY TO (1) ISSUE EVIDENCE OF
INDEBTEDNESS IN AN AMOUNT NOT TO
EXCEED \$450,000 IN CONNECTION WITH
CAPITAL IMPROVEMENTS; AND (2)
ENCUMBER ITS REAL PROPERTY AND
PLANT AS SECURITY FOR SUCH
INDEBTEDNESS.

DOCKET NO: W-01677A-16-0074

Arizona Corporation Commission

DOCKETED

JUN 24 2016



IN THE MATTER OF THE APPLICATION
OF TURNER RANCHES WATER AND
SANITATION COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-01677A-16-0076

RESPONSE TO STAFF REPORT

Turner Ranches Water and Sanitation Company ("Turner Ranches" or "Company")
hereby submits this Response to Staff Report in the above-referenced consolidated docket
numbers. Turner Ranches takes exception to three aspects of the Staff Report as explained
below.

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1 **TURNER RANCHES' RESPONSE TO STAFF REPORT**

2 **I. Overview.**

3 Turner Ranches is a very small water utility providing water for irrigation to
4 approximately 900 end-users in Mesa, Arizona. Adoption of Staff's recommendations in
5 this rate case would result in Turner Ranches being a very small water utility in serious
6 financial distress.

7 First, Staff's recommended revenue requirement is inadequate to support the
8 Company's operations and provide a reasonable opportunity to earn a return on rate base.
9 Indeed, as explained below, Turner Ranches will run out of cash within 24 months of
10 adoption of Staff's recommended rates.¹ Just as important, the Company is projected to
11 have anemic equity returns from 2017 to 2020 – the period of time the rates approved in the
12 instant case will be in effect. In other words, while the Commission is actively pursuing
13 new policies aimed at strengthening the health of Arizona's small water utilities and their
14 ability to maintain financial stability and attract capital, Staff is making recommendations
15 that will create another financially distressed small water utility that cannot fund needed
16 improvements and attract necessary capital for the provision of service.²

17 Second, Staff's recommendation that the Commission deny the request for a debt
18 service surcharge recovery mechanism in connection with the financing application will
19 result in the Company being unable to close the loan. This is true because the lender has
20 made approval of a surcharge a condition of the loan. As a result, Turner Ranches will not
21 be able to complete the projects described in Table 8 of the Staff Report, projects that Staff

22 ¹ This assumes new rates go into effect no later than October 1, 2016.

23 ² See *Arizona Corporation Commission Investigation into Potential Improvements to Its*
24 *Water Policies*, Docket No. W-00000C-16-0151. The Commission voted on the day of this
25 filing to approve policies intended to promote the financial health and viability of small
26 water companies. While the Commission's final policy statements and order of approval
were not available for direct reference before the deadline for this filing, it seems clear that
Staff's recommendations in this case are at odds with the spirit and intent of the
Commission's newly adopted policies to promote the financial viability of water utilities.

1 agrees are needed for capital maintenance on existing equipment located at water wells,
2 pump stations and the Company's distribution system.³ The Company also takes exception
3 to Staff's recommendation establishing an expiration date of December 31, 2017 for any
4 unused authorization to incur debt.

5 Third, the Company takes exception to the Staff recommendation for a rate freeze
6 until after the Company files documentation certifying compliance with Arizona
7 Department of Water Resources ("ADWR"). As discussed below, the Company has
8 completed the steps necessary to resolve the compliance matter. Meanwhile, absent a threat
9 to the public health, Staff's recommendation would simply hasten the Company's financial
10 distress.

11 **II. STAFF'S RECOMMENDED REVENUE REQUIREMENT AND DENIAL OF**
12 **THE REQUESTED DEBT SURCHARGE RECOVERY MECHANISM**
13 **WOULD LEAVE THE COMPANY UNABLE TO BORROW MONEY AND**
14 **UNABLE TO PAY ITS BILLS.**

15 Staff claims that its proposed revenue requirement provides Turner Ranches enough
16 revenue to meet operating expenses and service the debt to be incurred in connection with
17 the financing, and that the financial ratios do not suggest a need for an additional surcharge.⁴
18 Actually, Staff's revenue requirement will leave the Company short of sufficient revenue
19 to pay operating expenses and fund a return on rate base, including sufficient operating
20 income to pay debt service on the proposed financing. In fact, under Staff's proposed rates,
21 Turner Ranches will run out of money and be unable to pay its bills by sometime in 2018.

22 Staff's recommended rates and charges are reflected on Schedule MJR-4.⁵ The
23 Company has prepared projected cash flow schedules based on Staff's rates, and assuming
24 it borrowed \$450,000, as proposed, and completed at least \$450,000 of the \$660,500 in

25 ³ See Engineering Report at 16.

26 ⁴ See Staff Report at 8-10.

⁵ See Staff Report at 10.

1 priority projects listed in Table 8 of the Staff Report by the end of 2017 and the balance of
2 the projects by 2018. As shown, without the requested debt service surcharge, the Company
3 will have negative cash flows and negative cash balance of \$(54,437) in 2018.⁶ Obviously,
4 even if Turner Ranches could, it would not be prudent to borrow this sum if Staff's
5 recommendations are approved. Turner Ranches won't have sufficient cash flow to service
6 this new debt, let alone earn a fair return on its investment in plant. As noted, under Staff's
7 recommended rates, the Company's projected return on equity will drop to just 4.64 percent,
8 3.83 percent and 4.32 percent for 2018, 2019, and 2020, respectively. The Company cannot
9 attract capital and should not make additional investment to serve customers for such
10 anemic equity returns.

11 Even another rate case won't timely fix Staff's proposed shortfall for the Company.
12 If the Company were able to borrow the money without the surcharge, complete the projects
13 funded with the borrowed money, and then file another rate case using a 2017 test year so
14 that the capital improvements financed with the new debt can be recognized in rates, the
15 Company still will not be able to avoid running out of cash. This is because another rate
16 case could not be filed any sooner than April 2018, and a decision on new rates would not
17 be granted by this Commission any sooner than November or December 2018.

18 The result Staff recommends for the Company would be particularly disappointing
19 given that the Company was able to secure a loan commitment from BBVA Compass. It is
20 very hard for small water companies to obtain loans from any entity except WIFA, but
21 Turner Ranches did it. However, the bank's commitment to lend to the Company is
22 predicated on approval of a debt service surcharge by the Commission.⁷ Even BBVA
23 Compass recognizes the need for the revenue increase and a debt surcharge in order to

24 _____
25 ⁶ The schedules are attached as **Exhibit A**.

26 ⁷ See page 3, Section G of the commitment letter, attached as **Exhibit B**. The loan amount
noted in the commitment letter includes closing costs and other bank fees.

1 minimize the credit risk of a loan to the Company. In any event, Staff's recommendation
2 that the Commission deny the requested surcharge will effectively prevent the Company
3 from getting the loan, at least as currently proposed. Unfortunately, even if the Commission
4 were to move revenue around so that some of Staff's revenue requirement was collected as
5 a surcharge to satisfy the lender's debt surcharge requirement, the conditions of the lender
6 still would not be met because the lender expects a revenue increase of, at a minimum, the
7 level requested in the Company's initial application.⁸ But, regardless, the Company will
8 not be able to afford the loan and pay its bills. As discussed, Staff's proposed level of
9 revenue does not build in the cash flow required for debt service.⁹ The Commission should
10 not leave another small water utility in financial distress. Nor should it adopt
11 recommendations made by Staff that deny Turner Ranches an opportunity to borrow money
12 to make needed plant improvements. Turner Ranches needs to be viable and financially
13 healthy, and only its recommendations in this case will result in a financially healthy utility
14 that can attract capital to make necessary capital improvements and pay its bills.

15 **III. STAFF'S RECOMMENDATION FOR AN EXPIRATION DATE OF**
16 **DECEMBER 31, 2017 FOR ANY UNUSED AUTHORIZATION TO INCUR**
17 **DEBT IS UNNECESSARY AND DENIES THE COMPANY NEEDED**
18 **FLEXIBILITY.**

18 Staff recommends an expiration date of December 31, 2017 for any unused
19 authorization to incur debt granted in this proceeding.¹⁰ If the Commission rejects Staff's
20 recommendations as discussed in the prior section of this response, it should also reject
21 Staff's recommended expiration date. While Turner Ranches will endeavor to complete the
22 entire list of priority projects to be funded by the proposed loan within the next year, there
23

24 ⁸ See **Exhibit B**, Section G.

25 ⁹ Staff recommends disallowance of the debt surcharge. See Staff Report at 9 and 10.

26 ¹⁰ Staff Report at 11.

1 is a possibility that some project could linger beyond the end of 2017.¹¹ The Company
2 believes December 31, 2018 is a more realistic completion date, and therefore requests
3 December 31, 2018 as the expiration date for any unused authorization.

4 **IV. STAFF'S RECOMMENDATION FOR A RATE FREEZE UNTIL TURNER**
5 **RANCHES COMPLIES WITH ADWR WILL ENSURE THE COMPANY'S**
6 **FINANCIAL HARM.**

7 Staff recommends that new rates for Turner Ranches not take effect until the first
8 day of the month following the date after which the Company is brought into compliance
9 with ADWR and appropriate documentation is filed with Docket Control.¹² According to
10 the ADWR compliance report, dated March 17, 2016, ADWR could not determine the
11 Company's water loss and, consequently, the Company was considered to be out of
12 compliance, a fact that was unknown to the Company at the time. Subsequently, Staff,
13 ADWR representatives, and the Company met and determined that the installation of a
14 meter at the Fire and Irrigation Station would satisfy the requirements for compliance with
15 ADWR.¹³ That meter has been installed.¹⁴

16 Since becoming aware of the issue, the Company has taken all necessary steps to
17 achieve compliance. But Turner Ranches cannot control when ADWR deems it in
18 compliance and, therefore, the Company strongly disagrees with the recommendation by
19 Staff to freeze new rates as a punitive measure. Again, the Company was never informed
20 by ADWR of its delinquent status. To the Company's knowledge, there was no issue until
21 it was announced by Staff on or about May 5, 2016. Since then, the Company has worked
22 diligently to bring itself back into compliance, and as of June 21, 2016, the meter at the Fire

23
24 ¹¹ The list of priority projects is included in the Financing Application, Exhibit 2.

25 ¹² Staff Report at 11 and Engineering Report at 13.

26 ¹³ Engineering Report at 15.

¹⁴ See Exhibit C.

1 and Irrigation Station is installed and registering properly.¹⁵ The Company has
2 communicated this to ADWR personnel, and to Staff, and is currently awaiting further
3 direction from ADWR. Turner Ranches has done everything it can and Staff has not shown
4 or even asserted that this is a matter that puts the Company's customers or the public at
5 large at any risk. As such, the Company asserts that a rate freeze is unnecessary, punitive,
6 and will ensure that Turner Ranches' downward slide towards financial distress continues
7 longer than needed.

8 **RELIEF REQUESTED**

9 Turner Ranches respectfully requests that the Commission approve the following
10 relief:

11 A. A total revenue requirement of \$831,799, which constitutes a revenue
12 increase of \$134,750 or 19.33 percent over test year revenues and a 12.00 percent return on
13 fair value rate base equal to \$925,790;

14 B. Approval to charge the rates shown on pages 9 and 11 of the Company's rate
15 application;

16 C. Approval to enter into a loan agreement with BBVA Compass in an amount
17 not to exceed \$450,000 at an interest rate of no more than prime plus 1.5 percent as per the
18 commitment letter currently at 5.00 percent, and authorization to pledge assets, execute
19 documents and do all things necessary to secure this loan;

20 D. Approval to collect a debt service surcharge equal to \$5.70 per customer per
21 month until new rates are approved in the next rate case (expected to be filed by May 2020
22 using a test year of 2019) to be used to repay the loan from BBVA Compass approved by
23 the Commission herein; and

24 E. For such other and further relief as necessary in the Commission's discretion.


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¹⁵ *Id.*

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RESPECTFULLY SUBMITTED this 24th day of June, 2016.

SHAPIRO LAW FIRM, P.C.

By: 
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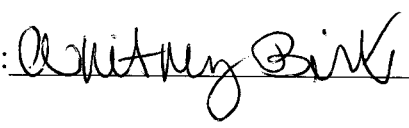
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EXHIBIT A

Turner Ranches Water and Sanitation Company

2015 Actual and 2016-2020 Projected Statements of Cash Flows with Rate Increase and without Debt Surcharge

Line No.		Actual 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
1							
2							
3	Cash Flows from Operating Activities						
4	Net Income	\$ (53,936)	\$ 73,328	\$ 86,346	\$ 59,218	\$ 46,811	\$ 50,719
5	Adjustments to reconcile net income to net cash						
6	provided by operating activities:						
7	Depreciation and Amortization	124,100	53,789	117,060	133,831	135,516	121,284
8	Adjustment to Depreciation and Amort.	(2,248)	341,039	-	-	-	-
9	Changes in Certain Assets and Liabilities:						
10	Accounts Receivable	(4,717)	3,919	(4,680)	-	-	-
11	Restricted Cash						
12	Materials and Supplies Inventory						
13	Prepaid Expenses						
14	Deferred Charges						
15	Receivables/Payables to Associated Co.	86,937	80,000	(128,213)	(50,000)	-	-
16	Accounts Payable	(28,964)	(50,000)	-	-	-	-
17	Interest Payable						
18	Customer Meter and Security Deposits						
19	Taxes Payable	(363)	-	-	-	-	-
20	Other assets and liabilities	-	-	-	-	-	-
21	Rounding	2					
22	Net Cash Flow provided by Operating Activities	\$ 120,811	\$ 502,075	\$ 70,513	\$ 143,049	\$ 182,327	\$ 172,004
23	Cash Flow From Investing Activities:						
24	Capital Expenditures ¹	(115,064)	(75,462)	(464,194)	(116,331)	-	-
25	Plant Held for Future Use	-	-	-	-	-	-
26	Changes in Special Funds	-	-	-	-	-	-
27	Net Cash Flows from Investing Activities	\$ (115,064)	\$ (75,462)	\$ (464,194)	\$ (116,331)	\$ -	\$ -
28	Cash Flow From Financing Activities						
29	Change in Restricted Cash						
30	Net Proceeds from Long-Term Debt	-	-	414,417	(37,404)	(39,318)	(41,329)
31	Net receipt of contributions in aid of construction	-	-	-	-	-	-
32	Net receipts of advances in aid of construction	-	-	-	-	-	-
33	Adjustment to Retained Earnings from Reconstruction of A/D	-	(341,039)	-	-	-	-
34	Distributions for Income Taxes	-	(15,399)	(18,133)	(12,436)	(9,830)	(10,651)
35	Dividends ²	-	-	(50,466)	(49,527)	(49,003)	(49,003)
36	Deferred Financing Costs	-	(15,113)	1,550	1,550	1,550	1,550
37	Paid in Capital	-	-	-	-	-	-
38	Net Cash Flows Provided by Financing Activities	\$ -	\$ (371,550)	\$ 347,368	\$ (98,552)	\$ (97,125)	\$ (99,433)
39	Increase(decrease) in Cash and Cash Equivalents	5,747	55,063	(46,313)	(71,834)	85,202	72,570
40	Cash and Cash Equivalents at Beginning of Year	2,900	8,647	63,710	17,397	(54,437)	30,765
41	Cash and Cash Equivalents at End of Year	\$ 8,647	\$ 63,710	\$ 17,397	\$ (54,437)	\$ 30,765	\$ 103,335
42							
43							

¹ The Company has \$660,500 of high priority projects that need to be completed by 2018. The project costs are supported by Table 8 in Staff Report. Does not include \$230K of lower priority projects the Company plans to complete by 2019.

² Dividends base upon an analysis of book dividend yields of publicly traded utility companies. Book dividend yield of publicly traded water companies is 5.86%. If the Company is to be able to attract capital it must at a minimum provide the same dividend yields as publicly traded water companies.

2015 Actual and 2016-2020 Projected Revenues and Expenses with Proposed Rate Increase and without Debt Surcharge

	Inflation Factor	Actual 2015	Projected[1] 2016	Projected[1] 2017	Projected[1] 2018	Projected[1] 2019	Projected[1] 2020
<u>OPERATING REVENUES</u>							
461 Water Revenue		\$ 683,735	\$ 719,992	\$ 828,763	\$ 828,763	\$ 828,763	\$ 828,763
474 Other Water Revenues		-	-	-	-	-	-
TOTAL REVENUES		\$ 683,735	\$ 719,992	\$ 828,763	\$ 828,763	\$ 828,763	\$ 828,763
<u>OPERATING EXPENSES</u>							
601 Salaries and Wages		\$ 31,600	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000	\$ 45,000
610 Purchased Water		-	-	-	-	-	-
615 Purchased Power	2.0%	236,964	241,703	246,537	251,468	256,497	261,627
618 Chemicals		-	-	-	-	-	-
619 Water Treatment		-	-	-	-	-	-
620 Repairs and Maintenance [2]	2.0%	61,049	13,310	13,576	13,848	14,125	14,407
621 Office Supplies and Expense	2.0%	7,340	7,487	7,637	7,789	7,945	8,104
630 Outside Services	2.0%	214,754	219,049	223,430	227,899	232,457	237,106
635 Water Testing	2.0%	430	439	447	456	465	475
641 Rents	2.0%	16,104	16,426	16,755	17,090	17,431	17,780
650 Transportation Expenses	2.0%	5,929	6,048	6,169	6,292	6,418	6,546
657 Insurance - General Liability	2.0%	4,218	4,302	4,388	4,476	4,566	4,657
659 Insurance - Health & Life		-	-	-	-	-	-
666 Reg. Commission Expense		8,281	5,000	5,000	5,000	5,000	5,000
675 Miscellaneous Expense		769	-	-	-	-	-
403 Depreciation		124,100	53,789	117,060	133,831	135,516	121,284
408 Taxes Other Than Income		2,557	3,429	3,429	3,429	3,429	3,429
408.11 Property Taxes (computed 2016-2020)		32,439	30,294	29,747	31,546	33,595	35,132
670 Bad Debt Expense		-	-	-	-	-	-
409 Income Tax [3]		-	-	-	-	-	-
TOTAL OPERATING EXP.		\$ 746,534	\$ 646,276	\$ 719,175	\$ 748,124	\$ 762,445	\$ 760,547
<u>OPERATING INC.(LOSS)</u>							
		\$ (62,799)	\$ 73,716	\$ 109,588	\$ 80,639	\$ 66,318	\$ 68,216
<u>OTHER INC./(EXPENSE)</u>							
419 Interest and Dividend Income		\$ 152	-	-	-	-	-
421 Non-Utility Income		8,711	-	-	-	-	-
426 Miscellaneous Non-Utility Income		-	-	-	-	-	-
427 Interest Expense		-	(388)	(23,242)	(21,421)	(19,508)	(17,496)
TOTAL OTHER INC.(EXP.)		\$ 8,863	\$ (388)	\$ (23,242)	\$ (21,421)	\$ (19,508)	\$ (17,496)
NET INCOME/(LOSS)		\$ (53,936)	\$ 73,328	\$ 86,346	\$ 59,218	\$ 46,811	\$ 50,719
Return on Book Equity							
			6.91%	6.32%	4.54%	3.83%	4.32%

[1] Projected Revenues

Projected Revenue Increase Recommended by Staff
 Estimated Debt Surcharge Revenues (assume starts Jul. 2017)
 Projected Revenue Increase Authorized Plus Debt Surcharge
 Annualized Effect on 2015 Revenues (assumes rate increase in effect on Oct. 1, 2016)

[2] Lake maintenance expense of \$48,000 removed from projected 2016 and forward.

[3] Imputed Income Taxes at effective federal and state tax rate of 21%.

[4] Assumes Loan repayment begins in Jan. 2017.

2015 Actual and 2016-2020 Projected Balance Sheets with Proposed Rate Increase and without Debt Surcharge

ASSETS	Actual 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
CURRENT AND ACCRUED ASSETS						
131 Cash	\$ 8,647	\$ 63,710	\$ 17,397	\$ (54,437)	\$ 30,765	\$ 103,335
134 Working Funds	-	-	-	-	-	-
135 Temporary Cash Investments	-	-	-	-	-	-
141 Customer Accounts Receivable	34,899	30,980	35,661	35,661	35,661	35,661
146 Notes/Receivables from Associated Companies	-	-	-	-	-	-
151 Plant Materials and Supplies	-	-	-	-	-	-
162 Prepayments	-	-	-	-	-	-
174 Miscellaneous Current and Accrued Assets	-	-	-	-	-	-
TOTAL CURRENT AND ACCRUED ASSETS	\$ 43,546	\$ 94,690	\$ 53,057	\$ (18,776)	\$ 66,426	\$ 138,996
FIXED ASSETS						
101 Utility Plant In Service	-	-	-	-	-	-
103 Property Held for Future Use	-	-	-	-	-	-
105 Construction Work in Progress	3,000	-	-	-	-	-
108 Accumulated Depreciation - Utility Plant	(3,365,676)	(3,750,504)	(3,867,564)	(4,001,395)	(4,136,911)	(4,258,195)
121 Non-Utility Property	-	-	-	-	-	-
122 Accumulated Depreciation - Non Utility	-	-	-	-	-	-
TOTAL FIXED ASSETS	\$ 1,271,428	\$ 952,062	\$ 1,299,196	\$ 1,281,696	\$ 1,146,179	\$ 1,024,895
181 Unamortized Debt Discount and Expense	-	15,113	13,563	12,013	10,463	8,913
126 Sinking Fund/Debt Reserve	-	-	-	-	-	-
TOTAL ASSETS	\$ 1,314,974	\$ 1,061,864	\$ 1,365,816	\$ 1,274,932	\$ 1,223,068	\$ 1,172,804
LIABILITIES						
CURRENT LIABILITIES						
231 Accounts Payable	\$ 88,129	\$ 38,129	\$ 38,129	\$ 38,129	\$ 38,129	\$ 38,129
232 Notes Payable (Current Portion)	-	-	-	-	-	-
234 Notes/Accounts Payable to Associated Companies	98,213	178,213	50,000	-	-	-
235 Customer Deposits	-	-	-	-	-	-
236 Accrued taxes	2,079	2,079	2,079	2,079	2,079	2,079
237 Accrued Interest	-	-	-	-	-	-
241 Miscellaneous Current and Accrued Liabilities	-	-	-	-	-	-
TOTAL CURRENT LIABILITIES	\$ 188,421	\$ 218,421	\$ 90,208	\$ 40,208	\$ 40,208	\$ 40,208
LONG-TERM DEBT (Over 12 Months)						
224 Long-Term Notes and Bonds	\$ -	\$ -	\$ 414,417	\$ 377,013	\$ 337,695	\$ 296,366
DEFERRED CREDITS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
251 Unamortized Premium on Debt	-	-	-	-	-	-
252 Advances in Aid of Construction *	-	-	-	-	-	-
255 Accumulated Deferred Investment Tax Credits	-	-	-	-	-	-
271 Contributions in Aid of Construction **	-	-	-	-	-	-
272 less: Amortization of Contributions	-	-	-	-	-	-
281 Accumulated Deferred Income Tax	-	-	-	-	-	-
TOTAL DEFERRED CREDITS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	\$ 188,421	\$ 218,421	\$ 504,625	\$ 417,221	\$ 377,903	\$ 336,574
CAPITAL ACCOUNTS						
201 Common Stock Issued	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
211 Paid in Capital in Excess of Par Value	(982,897)	(982,897)	(982,897)	(982,897)	(982,897)	(982,897)
215 Retained Earnings	1,109,450	826,340	844,088	840,609	828,062	819,128
TOTAL CAPITAL	\$ 1,126,553	\$ 843,443	\$ 861,191	\$ 857,712	\$ 845,165	\$ 836,231
TOTAL LIABILITIES AND CAPITAL	\$ 1,314,974	\$ 1,061,864	\$ 1,365,816	\$ 1,274,932	\$ 1,223,068	\$ 1,172,804
% Debt	0.00%	0.00%	32.49%	30.53%	28.55%	26.17%
% Equity	100.00%	100.00%	67.51%	69.47%	71.45%	73.83%

EXHIBIT B

BBVA Compass

April 26, 2016

Ronald R. Lopez
Judith A. Lopez
Turner Ranches Water and Sanitation Co.
11436 E. North Ridge St.
Mesa, AZ 85207

Dear Ronald and Judith,

Thank you for the opportunity to work with you in connection with the financing needs of your business. We are pleased to provide you with a commitment letter for this loan project. The loan is contingent upon satisfying all conditions set forth in the terms below, approval by SBA and issuance of a 75% guarantee. This commitment letter supersedes all previous terms and/or commitments.

Borrower(s): Turner Ranches Water and Sanitation Co.

Guarantor(s): Ronald R. Lopez
Judith A. Lopez

Loan Amount: \$482,000

Below is a list of the sources and uses of funds for the subject SBA loan. Due to the nature of the funding, this is subject to change. Any changes to be approved by the bank.

Use of Funds	Project Costs	
Working Capital	\$ 505,000	
Closing Costs	\$ 20,155	
Guarantee Fee	\$ 10,845	
Total Project Costs	\$ 536,000	
Sources of Funds		% contribut to eligible costs
Borrower Equity Injection	\$ 54,000	10.07%
Compass Bank / SBA	\$ 482,000	89.93%
Total Project Costs	\$ 536,000	100.00%

Purpose: Provide financing for upgrading/improvement/repair of equipment and infrastructure located at their Water Wells located in Arizona.

Rate: The interest rate on the loan is WSJ Prime + 1.50%, fixed for 5 years, then to be adjusted every 5 years at the same rate index for the term of the loan. WSJ Prime base rate for April is 3.50%. If the loan were to close today, the interest rate would be 5.00%.

**If this loan commitment is not accepted in 7 days or does not close in 30 days, rates quoted here within are subject to change based on prevailing market conditions at that time.

Estimated Payment: Based on the above mentioned loan amount, rate and term, the estimated monthly payment would be \$5,213.50.

Term: 10 years - 3 months of interest only payments, followed by 117 monthly principal and interest payments to fully amortize the loan.

Fees: \$500 SBA packaging fee. A loan package prepared in accordance with SBA regulations and procedures will be prepared by Compass and submitted to the SBA for review and approval. This fee is non-refundable.

Prepayment

Penalty: None

Borrower is an entity that is duly organized, properly licensed, in good standing, and has complied with the fictitious name statement and all other laws and statutes required in the State of Arizona.

All financial information submitted by the Borrower to Bank, whether previously or in the future, is and will be true and correct in all material respects upon submission, and is and will be complete upon submission insofar as may be necessary to give Bank a true and accurate knowledge of the subject matter thereof.

All sources of Borrower's \$54,000 equity injection must be verified, as per the use of proceeds outlined above, prior to the closing date being set. Evidence of equity injection, in form and substance satisfactory to Bank, in its sole discretion, must be provided and accepted by the Bank before the date of loan closing. Acceptable evidence of injection may include, but is not limited to; bank/investment statements, certified funds documented at escrow, cashier's checks, front and back of canceled checks with "paid" stamped invoices and executed seller carry notes. Any questions concerning acceptable evidence of injection should be directed to the person assisting you in loan closing.

Collateral:

Payments and performance of all sums and all other obligations under this Agreement shall be secured by a security interest or lien in favor of Compass Bank in or on the following:

Primary collateral will consist of a 1st lien Deed of Trust on land located at 6635 E. Broadway Road, Mesa AZ 85206.

Additional collateral will consist of a 1st lien Deed of Trust on land located at 6741 E. Baseline Road, Gilbert, AZ 85234.

Additional collateral will consist of a 1st lien Deed of Trust on land located at 908 S. Power Road, Mesa, AZ 85206.

Additional collateral will consist of a 1st lien Deed of Trust on land located at 1606 S. 72nd Street, Mesa, AZ 85206 (2 parcels of land with TR-11 well).

Additional collateral will consist of a 1st lien on corporate stock of Turner Ranches Water and Sanitation Company.

Additional collateral will consist of a 1st blanket lien on all business assets of Turner Ranches Water and Sanitation Company including, but not limited to equipment, fixtures, accounts receivable, inventory and general intangibles, excluding vehicles and underground equipment.

If the approved collateral position should change in any way prior to loan closing, additional collateral may be required in order to comply with SBA regulations.

Before the Bank is obligated to disburse the loan, Bank must receive all of the following, each of which must be in the form and substance satisfactory to Bank.

- A. Borrower and guarantors agree to provide necessary documentation and execute required forms for Bank to obtain loan approval from the U.S. Small Business Administration, including the satisfaction of any loan conditions or terms including waiver of spousal guaranty, imposed by the U.S. Small Business Administration in connection with its approval and guaranty. Bank will prepare SBA application and subsequent forms to obtain valid SBA guaranty on behalf of borrower(s), guarantor(s) and if applicable, affiliate(s).

- B. Original executed Security Agreements covering collateral described above.
- C. Evidence that the security interests and liens in favor of Compass Bank are valid, enforceable and prior to the rights and interests of others except those consented to in writing by Compass Bank.
- D. Borrower shall pay all expenses associated with closing the loan and maintaining the Bank's perfected security interest in the collateral.
- E. Borrower agrees to reimburse BBVA Compass for out-of-pocket expenses covering appraisals, abstracts of titles or other record searches, attorney's fees and for other charges or expenses incurred or performed at the request of Borrower, or required for proper documentation and funding of the loan.
- F. Borrower will maintain adequate life, fire, public liability, or other specified insurance as outlined below and will take out and keep in force such insurance as the Bank may require from time to time and will upon request of Bank, deliver to Bank the policies or a schedule of all insurance in force as the Bank may determine from time to time, and will assign those policies to Bank upon the request of Bank. All policies covering property given to Bank as security for the loan shall contain a loss payable clause in favor of Compass Bank.
- G. Borrower agrees to additional provisions as follows:
 - 1. Submission of financial information on the borrower and guarantors dated within 90 days of closing reflecting no material adverse changes in financial condition since issuance of this commitment letter. Material adverse change including but not limited to, the initiation of insolvency, liquidation or bankruptcy proceedings, voluntary or otherwise. Material adverse change is determined at the sole discretion of the Bank.
 - 2. Verification of tax returns by the IRS on Borrower(s) and Guarantor(s).
 - 3. Approval is subject to the Arizona Corporation Commission's approval of the rate increase submitted and the surcharge for improvements submitted by TRW.
 - 4. Bank to engage third party vendor for an appraisal. Satisfactory "As Is" appraised value of at least \$118,200 (combined value on all the land taken as collateral) on commercial real estate located at 6635 E. Broadway Road, Mesa, AZ 85206, 6741 E. Baseline Road, Gilbert, AZ 85231, 908 S. Power Road, Mesa, AZ 85206, 1606 S. 72nd Street, Mesa, AZ 85206.
 - 5. A satisfactory Records Search with Risk Assessment (RSRA) and properly executed Lender Environmental Questionnaire (LEQ) will be required prior to the loan closing on commercial real estate located at 6635 E. Broadway Road, Mesa, AZ 85206, 6741 E. Baseline Road, Gilbert, AZ 85231, 908 S. Power Road, Mesa, AZ 85206, 1606 S. 72nd Street, Mesa, AZ 85206.
 - 6. A life insurance assignment will be required in the amount of at least \$220,000; either individually or collectively by Judy and Ronald Lopez.
 - 7. Copy of water exclusivity agreement or similar documents.
 - 8. Copy of Certificate of Convenience and Necessity (CC&N's).
 - 9. Copy of the recorded easement for equipment located on permanent easement at 908 S. Power Road, Mesa, AZ 85206.
 - 10. Additional documentation required by Bank's attorney to perfect the lien upon receipt and review of the recorded easement for equipment located on permanent easement at 908 S. Power Road, Mesa, AZ 85206.
 - 11. An environmental questionnaire will be required prior to loan closing for equipment located on permanent easement at 908 S. Power Road, Mesa, AZ 85206.

The Borrower signs below that he/she accepts the preliminary provisions outlined in the document and that, this does not constitute a loan commitment until all conditions here outlined or those that may arise in the closing process have been met. This commitment may not be modified or amended, except in writing signed by the parties hereto. This loan commitment will expire 90 days from April 26, 2016. The contents of this commitment letter are confidential in nature and intended only for the use of the Borrower and the Bank. The Borrower may not disclose any contents of this letter, either in whole or in part, to a third party without the consent of the Bank.

This Conditional Commitment Letter is null and void unless accepted in its entirety by borrower(s) and guarantor(s) as evidenced by receipt of a deposit and through signatures below on or before May 6, 2016.

Should you have any questions about the terms and conditions outlined herein, or wish to discuss these terms, please do not hesitate to contact me at 602-778-0783. We look forward to working with you on this loan project. Thank you for the opportunity to earn your business.

**BBVA Compass
SBA Lending**

Steve Gation, Vice President Date

Borrower:

Judith A. Lopez 5/6/16
Turner Ranches Water and Sanitation Co. Date
Judith A. Lopez, President

Guarantor(s):

Ronald R. Lopez 5-6-16
Ronald R. Lopez, Individually Date

Judith A. Lopez 5/6/16
Judith A. Lopez, Individually Date

EXHIBIT C

From: Judy [<mailto:jlopez2027@aol.com>]

Sent: Tuesday, June 21, 2016 10:45 AM

To: jmtannier@azwater.gov

Cc: cmfitch@azwater.gov, <cmfitch@azwater.gov>; Frank Smaila <FSmaila@azcc.gov>; rlopezfnm1020@aol.com

Subject: Turner Ranches - Flow Meter at F&I Station

The flow meter at the Fire and Irrigation Station has noW been installed and is registering properly. If you would like to verify this by a site visit, please let us know. Thank you.

Judy A. Lopez
President and General Manager
TURNER RANCHES WATER AND SANITATION COMPANY
480-677-6080

Sent from Mail for Windows 10